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RHMCSUU/DIR FBI WASHDC
RUEPINS/HGBICE INTEL WASHINGTON DC 0001

UNCLAS ZAGREB 000198

SIPDIS

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DEPT FOR PM/DTCC - BLUE LANTERN COORDINATOR
DEPT FOR EUR/SCE BALIAN

E.O. 12958: N/A
TAGS: [ETTC](#) [KOMC](#) [HR](#) [EXPORT](#) [CONTROL](#)
SUBJECT: BLUE LANTERN LEVEL 3: END-USER CHECK ON LICENSE
05-1014056

REF: STATE 3472

(U) SUMMARY AND COMMENT: Post has completed a complete post-shipment check on foreign end-user HS Produkt in the export of rear pistol sights from Springfield Inc under license 05-1014056 and found no derogatory information. In a 31 January consultation with the Ministry of Economy (MoE) and a February 22 company visit, PolOff confirmed that HS Produkt complies with all relevant Croatian import and export control laws as well as restrictions governing the import of U.S. Munitions List commodities. END SUMMARY AND COMMENT.

HS PRODUKT IN FULL COMPLIANCE

12. (U) At the MoE, Vesna Focht, head of the Trade Policy Section, and Snjezana Ivancic, head of the Enforcement Measures Section, confirmed that pistol manufacturer HS Produkt follows all procedures for licensing imports and exports of Munitions List commodities and that HS director Zeljko Pavlin is an active participant in export control seminars the MoE holds for industry reps.

13. (SBU) Ivancic also reported that HS Produkt recently withdrew an application for an export permit to sell pistols to Venezuela after learning that Croatia's Ministry of Foreign Affairs objected to the sale.

ALL PISTOLS CONTAINED LICENSED SIGHTS EXPORTED TO U.S.

14. (U) During company visit, Pavlin described dramatic growth of HS Produkt during past five years due to a strategic partnership with Springfield Inc in Illinois, the seller on this license. After striking a deal to manufacture the Xtreme Duty (XD) line of pistols for Springfield, annual production went from about 9,000 pistols in 2001 to 145,000 pistols in 2006. More than 99 percent of HS's production is XD pistols exclusively for Springfield. The adjustable rear sights on this license are only used in XD pistols, and in only a few of the 52 variations. All are exported to Springfield.

15. (U) Pavlin explained how his Croatian import permit restricts him to use the sights only for "internal production," meaning all are incorporated into pistols and returned to the company (Springfield) that exported the sights to HS. Because Springfield provides HS with only 1,000 - 1,500 sights at a time and these are shipped back to Springfield in weekly pistol shipments, there is never a

large quantity of sights on premises at any one time.

¶16. (U) Since the date of approval of the Springfield export license (December 15, 2006), Springfield has shipped 4,200 rear sights to HS Produkt out of the 50,000 allowed. In the meantime, HS's assembly included some sights provided by Springfield under their previous export permit. The company has shipped 4,700 pistols with licensed sights to Springfield since December 15. PolOff witnessed documentation of a shipment to Springfield and was provided copies of customs declarations showing how both the import and export of the sights is tracked.

¶17. (U) HS Produkt's factory was in a secure location under the watch of a private security company. All materials, including the licensed sights, are tracked and documented at each stage of the production process, preventing any pilfering by employees or visitors.

INTEREST IN OTHER MARKETS BUT DEPENDENT ON U.S.

¶18. (SBU) While Pavlin is always seeking ways to diversify his business, he was very open about his overwhelming dependence on the U.S. market and his interest in complying with U.S. export policy. HS manufactures its own "HS" line of pistols for non-U.S. customers (less than one percent of total production). Their main customers are the Croatian police and military and a handful of sporadic small scale exports to countries like Greece and Australia. Due to tight gun licensing procedures in these countries, these exports are predominantly destined for police and military use.

¶19. (SBU) Pavlin disclosed that HS Produkt had shipped 1,200 pistols to Venezuela in July 2002 for use by the Cojedas

district police. They received an export license in March 2003 to ship an additional 600 pistols to the Venezuelan military, what was to be the beginning of a larger contract, but Air France, HS Produkt's exclusive shipper, refused to ship because the license designated a customs broker as the end user rather than the military. Pavlin said he tried to correct this error but gave up his efforts last year when it became clear that Venezuela was too controversial a customer.
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